

4. Study the extract below and answer the questions that follow.

Chinese fruit might cause EU battle

- ❶ European fruit and vegetable farmers, who already benefit from heavy **subsidies**, are looking for even more protection from Chinese competition.
- ❷ Damaged by low-cost competition from China, Poland's strawberry producers filed a complaint with the European Union (EU) last year, leading to the EU's first agricultural import tariff of 34.2 % on imports of frozen strawberries from China.
- ❸ Poland's strawberry growers aren't alone. EU trade officials, under pressure from Spanish farmers, set quotas in 2004 on Chinese mandarins and other Chinese citrus fruits. Lobbyists representing industries such as Spanish furniture makers and Belgian apple farmers could pursue dumping complaints against the Chinese. The EU recently imposed anti-dumping duties on Chinese and Vietnamese shoes following complaints from Italian shoemakers.
- ❹ European regulators are being influenced by two views. Some producers fear Asian competition. However, European jam, yogurt and ice-cream producers, who need cheap fruit to cut their costs, do not support the call for increased protection.
- ❺ The EU thinks it has much to gain by finding the right trade balance. "Agriculture will be an area of tremendous growth," says the EU trade commissioner. China can sell bulk products in the EU, saving EU consumers money, he claims, while the EU can benefit from China's growing middle classes by selling products for which people in China have high **income elasticity of demand**, such as wine and cheese.
- ❻ The value of Chinese agricultural exports to Europe is growing. For example, Chinese frozen strawberry exports to the EU rose to \$26.4 million last year from \$6.2 million in 2002, an increase in market share to 20 % from 3.5 %.
- ❼ Chinese agriculture exporters are actively pursuing sales to Europe. At a trade fair last month in Chengdu, agriculture was the most prominent sector represented – ahead of high-tech and heavy-machinery firms.
- ❽ Poland is the world's sixth-largest grower of strawberries. It joined the EU in 2004 and has an unemployment rate near 15 %. Lobbyists pushing for strawberry tariffs said that without them, the country could lose more than 2500 jobs.

[Source: adapted from http://www.chinadaily.com.cn/world/2006-12/26/content_767919.htm 20 January 2007]

(This question continues on the following page)

(Question 4 continued)

- (a) Define the following terms indicated in bold in the text:
- (i) subsidies (*paragraph ❶*) *[2 marks]*
 - (ii) income elasticity of demand (*paragraph ❺*). *[2 marks]*
- (b) Using an appropriate diagram, explain the effect of the EU tariff on frozen strawberries on the European market for frozen strawberries. *[4 marks]*
- (c) Using an appropriate diagram, explain the type of unemployment that Poland might experience without the strawberry tariff. *[4 marks]*
- (d) Using information from the text/data and your knowledge of economics, evaluate a decision to increase protection in the EU strawberry industry. *[8 marks]*